

AGENDA MANAGEMENT SHEET

Name of Committee **Children, Young People and Families Overview and Scrutiny Committee**

Date of Committee **19th September 2007**

Report Title **Schools’ Funding Formula**

Summary This report explains the research which has been undertaken to inform the proposed changes to the Mainstream Schools’ Funding Formula.

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Would the recommended decision be contrary to the Budget and Policy Framework? [please identify relevant plan/budget provision] No

Background papers

- Schools Forum reports 25.1.07, 26.4.07 and 21.9.07
- Working papers

CONSULTATION ALREADY UNDERTAKEN:- Details to be specified

Other Committees

Local Member(s)

Other Elected Members For information:
Cllr Heather Timms
Cllr Richard Grant – *“This is a complex issue. Care needs to be taken to ensure that the desired outcomes are achieved and that there are no unintended consequences, particularly for children who live in deprived areas and themselves experiencing ‘individual deprivation’. The consultation may well ‘flush out’ some of the issues.”*
Cllr John Whitehouse – *“report noted”*

- Cabinet Member For information:
Cllr John Burton
- Other Cabinet Members consulted For information:
Cllr Izzi Seccombe – *“approved for O&S”*
Cllr Alan Cockburn – no comment to make
- Chief Executive
- Legal Victoria Gould – *“fine”*
- Finance David Clarke, Strategic Director of Resources
- Other Strategic Directors
- District Councils
- Health Authority
- Police
- Other Bodies/Individuals Michelle McHugh, Scrutiny Officer
Schools Forum
Headteachers’ Resources Policy Groups

FINAL DECISION **NO**

SUGGESTED NEXT STEPS: Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet 27th September 2007
- To an O & S Committee
- To an Area Committee
- Further Consultation Subject to Cabinet’s recommendation, all schools will be consulted on the proposed changes to the formula

Children, Young People and Families Overview and Scrutiny Committee – 19th September 2007

Schools' Funding Formula

Report of the Strategic Director for Children, Young People and Families

Recommendation:

That the Committee:

- considers and comments on progress of the Schools' Formula review to date, as outlined in this report, and recommends to Cabinet the proposed consultation process along with any revisions that the Committee may consider necessary,
- comments on the outline findings that will feed the consultation with schools and the Schools Forum.

1. Purpose

- 1.1 The Chair of Children, Young People and Families Overview and Scrutiny Committee has asked for a progress report on a review of the Local Schools' Funding Formula. The purpose of this report is to outline the research work that has been undertaken so far. It also sets out the resulting principles for making changes to the current Schools' Funding Formula.
- 1.2 This report is not intended to reproduce the detailed findings from the research. That work is still being undertaken. A presentation will be made to the Committee on 19th September that summarises the detailed findings so far. These findings will subsequently be published in a consultation document.
- 1.3 This report also explains the process for formal consultation with individual schools, the Schools Forum and the final Cabinet approval.

2. The Mainstream Schools' Funding Formula

- 2.1 The main use of the Dedicated Schools Grant (DSG) is to provide funding to individual schools. The actual amount of DSG each school receives is calculated using a formula, this is known as the Schools' Funding Formula.

- 2.2 The School Finance (England) Regulations 2006 define the factors which are allowed to be included in the Schools' Funding Formula. These regulations also define that any other differentiation of funding for individual schools can only be on the basis of differences in the functions of governing bodies and therefore cannot consider factors such as the current levels of reserves. While these regulations define the factors and criteria which can be included in the School Funding Formula, the Local Authority, in conjunction with its schools, must decide which factors are used in its local Formula and how funding is distributed using these factors.
- 2.3 The Schools Forum and individual schools have requested a review of the current Schools' Funding Formula. In addition the Department for Children, Schools and Families (DCSF) has strongly suggested that Local Authorities should review how funding for pupils from deprived backgrounds is allocated through their local Formula to schools. The intention of the deprivation review is to change funding to contribute to reducing the attainment gap for children from deprived backgrounds.
- 2.4 Local Authorities are required to set budgets for schools for a three-year period. To achieve this, the Schools' Funding Formula is not changed in the three-year budget period. March 2008 is the end of the current three-year budget period. The next budget period will cover the financial years 2008/11. Therefore, this is our only opportunity to review the Schools' Funding Formula before setting individual schools' budgets for the next three years.

3. The Approach

- 3.1 The Schools Forum and Cabinet suggested a number of issues and factors which should be reviewed to develop proposals to change the current Schools' Funding Formula. Initial investigation into each issue or factor was then undertaken, resulting in papers on findings and other issues for consideration being reported to the Schools Forum. Individual papers are available on the Schools Forum website. The Headteachers Resources Policy Groups have also discussed each issue or factor as research has been undertaken.
- 3.2 Research has been undertaken into the following factors and issues:
- (a) The proportion of funding distributed based on the age and number of pupils (the Age Weighted Pupil Unit (AWPU))
 - (b) Base allocation
 - (c) Small schools' funding
 - (d) The issue of additional costs of providing infant classes, which are legally required not to exceed 30 pupils
 - (e) Premises funding
 - (f) Deprivation funding
 - (g) The distribution of funding between primary and secondary school sectors
 - (h) The relationship between reserves and school funding.

- 3.3 At the time of writing this report the detailed proposals are being finalised. The detailed consultation document will be available from late September. This report considers the process and research undertaken and the resulting principles for the amendments being proposed, rather than quoting the resulting detailed formula factors.
- 3.4 It should also be noted that the level of funding per pupil, which will determine the overall Dedicated Schools Grant Warwickshire receives, and the minimum funding guarantee, have yet to be announced by the DCSF. Depending on these announcements, adjustments may be required to the current proposed changes to the Schools' Funding Formula to ensure the final formula is affordable.

4. Developing Amendments to the Formula

This section of the report considers each of the factors and issues identified above, and sets out the work undertaken, key findings and the principles for proposed changes to the formula arising as a result of this work.

(a) *Proportion of funding distributed based on the age and number of pupils*

Over 60% of the funding allocated through the Schools' Funding Formula is distributed based on the age and number of pupils in a school. This is known as Age Weighted Pupil Unit (AWPU) funding. A comparison was made of the proportion of funding distributed using AWPU's in Warwickshire's formula compared with funding distributed using AWPU's in other local authorities.

This comparison showed Warwickshire distributed significantly less funding using AWPU's, for both primary and secondary schools, than the national average and the average for our statistical neighbours. These results suggest that consideration should be given to reducing the overall funding through specific factors to increase the funding distributed using AWPU's.

(b) *Base allocation*

The purpose of the base allocation is to ensure that all schools, but in particular small schools, have sufficient minimum funding to meet the basic running costs of the school. This is a fixed amount per school and is not intended to meet variable costs, which should be met from variable funding elements, such as the AWPU.

Except for the funding distributed based on AWPU's, the base allocation is the single largest factor used to distribute funding to schools. The current base allocation has been built up historically and does not reflect specific costs incurred by the school. School representatives were asked to comment on two main principles: firstly whether the base allocation should be maintained and secondly whether the base allocation should reflect specific average costs.

The discussion and resulting proposals for amendments to the formula reflect the decision to maintain the base allocation and to define the criteria for the level of the base allocation (the issue of small schools is considered below).

(c) *Small schools' funding*

Small schools particularly rely on the base allocation to provide stability, as by definition they have low pupil numbers, so small changes in pupil numbers can significantly affect the financial position of the school. The initial view was that all schools should have the same base allocation, and therefore there should not be a small schools factor. When developing proposals the only way this could be achieved was to increase the base allocation for all schools, by reducing AWPU, which is in conflict with the findings from research on the relative proportion of funding distributed by AWPU

Therefore, it is necessary to retain a small schools' factor. One of the issues with the current small schools' factor is that there is no grading to the funding. So, exceeding the small schools' pupil number (currently 101 pupils) causes a significant loss of funding, which is not replaced by additional pupil funding. To improve this in the revised formula, a graded scale has been introduced to the small schools' factor. The small schools' factor now includes primary schools with up to 150 pupils and secondary schools with up to 700 pupils.

The overall impact of the proposed base allocation and the small schools' factor will result in releasing funding to be distributed using AWPU.

(d) *Infant class sizes*

One of the issues raised was the additional cost to schools of meeting infant class size requirements. There is a legal requirement that infant class sizes cannot exceed 30 pupils. Therefore there can be an additional cost to some schools of employing an additional teacher, once pupil numbers exceed 30, which is not offset by the additional funding received for each pupil.

To address this issue other Authorities have funded schools for the additional proportion of teaching costs incurred. Warwickshire's current formula provides some additional funding for schools with infant classes as part of the base allocation and an increase in the AWPU funding for pupils in Reception and Key Stage 1. This approach means that schools do not receive additional funding when the pressure arises.

A proposal has been developed to provide funding for schools based on the proportion of the additional teaching costs incurred if the school needs to provide an extra class. The proposed change assumes that Reception and Year 1 children will be taught in mixed age groups.

It should be noted that while the proposed approach directly addresses the issue for the schools concerned, it can produce significant fluctuations in funding for schools whose pupil numbers vary, or whose numbers mean they fluctuate between requiring an additional class.

(e) Premises

The relationship between the cost of running and maintaining premises and pupil numbers; floor area and school capacity was considered. The outcome was that floor area best reflects the cost of premises and is therefore the most appropriate factor to distribute funding. The current formula distributes premises funding based on floor area.

The current funding (based on the age and floor area of school buildings) and premises costs for individual schools were compared to determine whether the current formula should be adjusted to reflect more fairly premises costs. The outcome of this review suggests that the age weighting currently being applied to buildings should be adjusted. Therefore the proposed formula reflects an adjustment to the relative weighting of buildings, with the highest weighting now being proposed is for buildings dating from between 1950 and 1969. This distribution most accurately reflects the costs incurred by schools.

(f) Deprivation funding

The current formula distributes funding for deprivation based on the number of pupils entitled to Free School Meals and the attainment of pupils. Additional funding is also provided for looked after children.

There are two main considerations in relation to deprivation funding: firstly which specific factor(s) to use as a measure of deprivation and then how to distribute funding using these specific factor(s).

Measure of deprivation

A consultant was used to complete an additional review of deprivation. This review suggested potential factors for distribution and some findings from current research to consider, when developing the proposed changes to the formula. There are advantages and disadvantages with using all the measures being considered. The overall response from school representatives was to distribute deprivation funding using either the Index of Multiple Deprivation or the Income Deprivation Affecting Children Index (IDACI). The benefit of both these measures is that the relative deprivation of each pupil can be measured and allocated to the school they are attending rather than relying on a measure of relative deprivation for the area in which the school is situated. This better reflects the needs of schools, whose pupils are not from their surrounding area.

Research shows that both prior attainment and deprivation along with other factors have an impact on pupils' future attainment. Therefore the measure of prior attainment as a factor for distributing funding has been maintained in the new proposals, but the free school meals factor has been replaced by a factor using IDACI. Schools will still receive funding, equivalent to the cost of the free school meals to which their pupils are entitled.

In developing proposals for the revised formula the relationship between deprivation (measured using IDACI) and attainment was reviewed at both

individual school level and area level. For secondary schools there was clearly a relationship between deprivation and attainment, both at individual school level and at an area level. For primary schools the relationship between attainment and deprivation was not clear at individual school level, but was apparent at area level.

Distributing funding

The current distribution of funding for deprivation is the same for all pupils who are entitled to free school meals. In the proposed formula the level of funding for deprived pupils differs based on their attainment. Only those pupils in the most deprived 40% of the population nationally will be allocated funding through the IDACI factor. So the resulting distribution for the funding for the most deprived pupils is more targeted.

The overall amount of funding to be distributed through the total of deprivation factors is based on the amount of funding the DCSF have defined within the DSG as being allocated for deprivation.

(g) Funding between sectors

A review of the current funding between different school sectors was completed by calculating the ratio of primary/secondary expenditure per pupil. When this ratio for Warwickshire is compared with the national average and the average for West Midlands Authorities, the current allocation of spend between the primary and secondary sector is close to both. This suggests a shift in resources between sectors is not required. Therefore the current proposals do not recommend a shift in resources between school sectors.

(h) Reserves

The statistical correlation was calculated between school reserves and school funding to determine whether there is a relationship between these two variables. As has already been reported to this Overview and Scrutiny Committee, this correlation showed there is no relationship between funding and levels of reserves. In addition the School Finance Regulations mean that levels of school reserves cannot be used to differentiate the levels of funding given to individual schools.

5. Consultation Process

- 5.1 Although there is no longer a legal requirement to consult with all schools when proposing changes to the Schools' Funding Formula, it is considered beneficial and important to give all schools the opportunity to understand the proposed changes and to comment on these changes.
- 5.2 If Cabinet approves the request to go out to formal consultation, the consultation process will be carried out through a written document, which will be circulated to all schools. This document will set out and explain the proposed

changes and include a response form. All schools will also be invited to attend a meeting to explain the proposed changes and give schools an opportunity to ask questions.

- 5.3 A report will then be taken to Cabinet in December or January, depending on the results of the consultation, to approve the final Formula changes. This revised formula will then be used to set budgets for schools for 2008/11.

6. Summary

- 6.1 Research has been carried out on a number of individual factors and issues to inform proposals to revise the Schools' Funding Formula. Each factor has been considered in conjunction with the Schools Forum to define the direction.
- 6.2 Detailed proposals are currently being finalised and a consultation document is being produced. This will enable all schools to comment on the proposed changes to the formula.
- 6.3 The outcome of the consultation will inform final proposals, which will be taken to Cabinet for final approval.

7. Recommendation

That the Committee:

- considers and comments on progress of the Schools' Formula review to date, as outlined in this report, and recommends to Cabinet the proposed consultation process along with any revisions that the Committee may consider necessary,
- comments on the outline findings that will feed the consultation with schools and the Schools Forum.

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7th September 2007